

Message Text

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PAGE 01 SANTIA 06560 102227Z

ACTION ABF-01

INFO OCT-01 ARA-14 ISO-00 FSE-00 PER-05 IGA-02 TRSE-00

OPR-02 /025 W

-----079757 110659Z /12

R 102036Z AUG 77

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 6013

INFO AMEMBASSY BUENOS AIRES

AMEMBASSY LIMA

AMEMBASSY BRASILIA

AMEMBASSY LA PAZ

UNCLAS SANTIAGO 6560

EO 11652: NA

TAGS: EFIN, AFIN, AFSP, CI

SUBJ: EXCHANGE RATE

1. A NEW EXCHANGE RATE SCHEDULE HAS BEEN PUBLISHED REFLECTING A PESO DEVALUATION OF 3.8 PERCENT OVER THE NEXT 31 DAYS. THE PERIOD CONCERNED BEGINS AUGUST 5 WITH AN EXCHANGE RATE OF \$21.40 PER US\$1 AND ENDS ON SEPTEMBER 4 WITH AN EXCHANGE RATE OF \$22.22 PER US\$1. THE RATE OF DEVALUATION WAS DETERMINED IN ACCORDANCE WITH ESTABLISHED POLICY, BY THE SEASONALLY ADJUSTED INFLATION RATE OF THE PREVIOUS MONTH.

2. RUMORS OF A PROGRESSIVELY FASTER DEVALUATION OF THE PESO RELATIVE TO INFLATION APPEARED THE DAY BEFORE THE CENTRAL BANK ANNOUNCED THE CURRENT SCHEDULE. THESE RUMORS ORIGINATED IN THE POSSIBILITY OF A BOP DEFICIT BROUGHT ABOUT BY THE LOW COPPER PRICES REGISTERED LATELY, AND BY INCREASING IMPORTS. CENTRAL BANK OFFICIALS STATED THAT FUNDAMENTAL POLICY CHANGES COULD NOT BE BASED SOLELY ON SUCH SHORT-TERM EXPECTATIONS. COPPER PRICES SHOULD RISE TO

MORE NORMAL LEVELS WITHIN THE NEXT TWELVE MONTHS, ACCORDING TO THEIR PREDICTIONS. OTHER COMMENTATORS, HOWEVER, ARE RELYING
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PAGE 02 SANTIA 06560 102227Z

ON SUSTAINED LOW COPPER PRICES, ADD PROGRESSIVELY FASTER DEVALUATION BY YEAR'S END.

3. DURING THE PERIOD JANUARY-JULY, 1977, GOC DECREED CHANGES IN THE PESO/DOLLAR EXCHANGE RATE RESULTED IN AN OVERALL PESO APPRECIATION OF 13 PERCENT IN REAL TERMS. THAT IS, LOCAL INFLATION EXCEEDED NOMINAL PESO DEVALUATIONS AGAINST THE U.S.

DOLLAR. (THIS CALCULATION DOES NOT TAKE INTO ACCOUNT U.S. INFLATION.) A DETERMINING FACTOR IN THIS OUTCOME WAS THE ONE TIME PESO REVALUATION OF 11.1 PERCENT DECREED ON MARCH 4, PLUS THE EXCESS OF INFLATION OVER DEVALUATION.

4. IN LIGHT OF CURRENT LOW COPPER PRICES, IT IS UNLIKELY THAT THE GOC WILL APPRECIATE THE PESO (I.E. REVALUE) ANY FURTHER DURING THE REAMINING PART OF THE YEAR. RATHER, IS IS MORE LIKELY THAT FUTURE DEVALUATIONS WILL BEGIN TO EXCEED LOCAL PRICE INFLATION IN ORDER TO PROVIDE ADDITIONAL STIMULI TO ALTERNATIVE SOURCES OF FOREIGN EXCHANGE, I.E. NONTRADITIONAL EXPORTS.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DEVALUATIONS
Control Number: n/a
Copy: SINGLE
Sent Date: 10-Aug-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977SANTIA06560
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770289-0096
Format: TEL
From: SANTIAGO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770876/aaaacmmw.tel
Line Count: 74
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 7abc305d-c288-dd11-92da-001cc4696bcc
Office: ACTION ABF
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 26-Oct-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1645547
Secure: OPEN
Status: NATIVE
Subject: EXCHANGE RATE
TAGS: EFIN, AFIN, AFSP, CI
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/7abc305d-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009